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SUBJECT: THE DRC AND CHINA: WE CAN HAVE OUR CAKE AND EAT IT TOO

REF:(A) KINSHASA 426  
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¶1. (SBU) Summary: Recent public statements by the IMF, China (PRC)'s Ambassador to the Democratic Republic of Congo (DRC), and the Government of the Democratic Republic of Congo (GDRC) on the multi-billion dollar Sino-Congolese agreement concluded in early 2008 (ref A) share several common themes, and a few important differences. All parties agree that the DRC's infrastructure needs remain enormous and that the GDRC can and should simultaneously pursue the Chinese agreement and assistance, including debt relief, from traditional donors. The key sticking point reflects differing views on whether or not the Chinese agreement includes implicit or explicit guarantees of the GDRC. The IMF indicated during its September 10-23 Staff Mission to the DRC that some progress has been made with the GDRC in addressing concerns over the Chinese agreement's impact on the DRC's debt sustainability, but will wait until the conclusion of a mining feasibility study, now slated for March 2009, for any clarifications or possible adjustments to the agreement. The GDRC has stated both publicly and in discussions with the IMF its desire to pursue both a new IMF program and the Chinese agreement, but has been non-committal about its willingness to revise the terms of the agreement. While the Chinese clearly see a need to address suspicion about the agreement, they have provided no public indications that they are willing to revisit the agreement in light of IMF concerns. End Summary.

IMF: PROGRESS, BUT NOT THERE YET  
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¶2. (SBU) A press release issued by the IMF Staff Mission to Kinshasa from September 10-23 stated that "The mission supports the government's twin objectives of accelerating infrastructure development and achieving substantial debt relief from its traditional creditors." A key concern of the IMF and Paris Club members remains whether the agreement includes implicit or explicit guarantees of the GDRC. Until this issue is clarified, the DRC cannot qualify for a new IMF Poverty Reduction and Growth Facility program (PRGF).

¶3. (SBU) During a September 23 briefing with donor country representatives, the IMF noted that there had been some progress in discussions with the GDRC, particularly in the area of improved communications and a greater understanding by GDRC officials of IMF/Paris Club concerns. Specifically, the IMF told donors that the GDRC now accepts that the agreement includes guarantees. However, the GDRC continues to insist that these are "residual guarantees" covered by profits from the joint venture established under the agreement. From the GDRC perspective, the agreement would not impact debt sustainability since it is the joint venture, not the Congolese state, that would be responsible for

repayment, and additional resources or concessions could be found if the original concessions did not produce sufficient revenues to cover the investments. (Note: In the first phase of the agreement, revenues from the joint venture will be used to repay mining sector investments totaling approximately USD 3 billion. In the second phase of the project, 66 percent of the net profits will go towards paying off the loans for infrastructure projects. End Note.)

¶4. (SBU) The IMF further told donors that while it will continue to provide technical assistance to the GDRC on the 2009 DRC draft budget and 2008 economic program, it will wait for the conclusion of the mining feasibility study, now slated for March 2009, for specific discussions on clarification or re-visitation of provisions in the Chinese agreement. The feasibility study will also be an opportunity to review concerns over the concessionality of the loans. Based on the timing of the feasibility study, the IMF presented two possible scenarios for DRC reaching Heavily Indebted Poor Countries (HIPC) Completion Point. The optimistic scenario would have a new IMF program presented to the Board in July 2009, with Completion Point reached by May 2010. The less optimistic scenario would have Completion Point slip until 2011, at the earliest.

#### CHINA: ALL CAN PARTICIPATE IN DRC'S DEVELOPMENT

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¶5. (U) During an October 8 panel held as part of an international infrastructure conference in Kinshasa (iPAD Central Africa 2008), China's Ambassador to the DRC, Wu Zexian, outlined China's role in the DRC and directly addressed questions concerning the compatibility of the Chinese agreement and an IMF program. Zexian's presentation was the latest in a series of recent public statements on China's engagement in the DRC and was clearly aimed at addressing

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suspensions about the agreement.

¶6. (U) During his October 8 presentation, Ambassador Zexian highlighted three principals of Chinese engagement in the DRC. First, China supports the DRC as a fellow developing country with shared challenges. Second, China has long-standing relations with the DRC, including past assistance in infrastructure development projects such as the Parliament building and Marytr's sports stadium. Finally, China continues to support the DRC's development through both official assistance and the recently concluded mining/infrastructure agreement.

¶7. (U) Ambassador Zexian acknowledged public skepticism about the recently concluded agreement. He stressed that the agreement should not be considered an exclusive deal for China - all other partners were welcome to cooperate similarly with the GDRC. Turning to the IMF's concerns over possible sovereign guarantees in the agreement, Zexian stated that the agreement would not add additional debt for the DRC since the infrastructure projects would be paid for from the eventual profits from the mining concessions. In the event that the revenues from the concessions cannot cover the investment costs, the GDRC would either simply find other natural resources or concessions for payment, or the joint venture would be liquidated and China's Eximbank would take over control.

#### GDRC: DEBT RELIEF, CHINESE AID ARE BOTH PRIORITIES

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¶8. (U) Speaking at the same October 8 infrastructure panel as China's Ambassador, GDRC Minister of Plan Olivier Kamitatu stated that the DRC requires USD 14 billion for infrastructure development, of which USD 9 billion will be provided through the Chinese agreement. Kamitatu noted that the DRC plans to work with both new partners, such as China, as well as traditional donors. When asked specifically by an audience member how the GDRC plans to reconcile IMF concerns about provisions in the Chinese agreement with the need for debt relief under HIPC, Kamitatu stated that both HIPC and the Chinese agreement represent priorities for the GDRC at the highest level. The Chinese have been accepted as a partner by the Congolese, Kamitatu noted. To ensure both processes proceed, the

GDRC stands prepared to work through technical issues in the Chinese agreement.

19. (SBU) Comment. It is encouraging that the GDRC at a senior level has publicly stated its desire for both the Chinese agreement and HIPC to move forward, and that the IMF feels that progress has been made, if only at a superficial level, on the sticking point of whether the Chinese agreement includes implicit or explicit guarantees of the Congolese government. It is also noteworthy that the Chinese are participating in open forum-type meetings to discuss these issues, even before Assistant Foreign Minister Zhai Jun indicated willingness to do so two weeks later in a meeting in Beijing with AF A/S Frazer (ref B). The proof is in the pudding, however, and it remains unclear whether the GDRC and the Chinese government are really willing to revisit the agreement and bring problematic provisions in line with IMF requirements on debt sustainability. The Chinese and GDRC are correct that the DRC's needs are enormous and that all partners are welcome at the table. At the same time, infrastructure alone will not address the DRC's broader development challenges. The resources from debt relief remain critical to the provision of basic services and pro-poverty spending. The IMF Staff Mission has encouraged Paris Club members to engage the DRC and China at a senior level to convey the importance of ensuring that the Chinese agreement does not preclude a new IMF program and forward movement toward HIPC Completion Point. Post will seek opportunities to send this message to the GDRC and encourages Washington to do the same. End Comment.

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